

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON NQUTHU MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the accompanying financial statements of the Nquthu Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2009 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nquthu Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matter**

8. I draw attention to the matters below. my opinion is not modified in respect of these matters:

## **Significant uncertainties**

9. As disclosed in note 35 to the financial statements, the municipality is a defendant in five lawsuits of which the timing and outcome of the litigations cannot presently be determined and no provision for any liability that may arise has been made in the financial statements. These litigations include claims from ex-staff members as well as alleged breach of contracts by the municipality.

## **Restatement of corresponding figures**

10. As disclosed in note 38 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during the year ended 30 June 2011.

## **Fruitless and wasteful expenditure**

11. As disclosed in note 40 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R309 626, due to interest and penalties arising from late payment of supplier invoices and taxes due to the South African Revenue Service.

## **Material losses**

12. As disclosed in note 43 to the financial statements, the municipality suffered material electricity distribution losses of R1,863 million (12,518 million kW hours) during the year under review.

## **Material under spending of the budget**

13. The municipality has materially under spent its budget by R34,926 million and no satisfactory explanation was provided. The majority of under spending relates to transfers and grants being under spent by R25,234 million. Consequently, 48% of the municipality's objectives were not achieved.

## **Additional matters**

14. I draw attention to the matters below. my opinion is not modified in respect of these matters:

## **Unaudited supplementary schedules**

15. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

16. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

## **Predetermined objectives**

### **Presentation of information**

17. The following criteria are relevant to the finding below:

- Performance against predetermined objectives was not reported using the National Treasury guidelines.

The following audit finding relate to the above criteria:

### **Reasons for major variances between planned and actual reported targets were not provided in the report on predetermined objectives**

18. Adequate explanations for major variances between the planned and the actual reported targets were not provided, as required in terms of the relevant reporting guidance. In total 100% of the reported targets with major variances were not explained.

## **Usefulness of information**

19. The following criteria are relevant to the finding below:

- Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time-bound.

The following audit finding relate to the above criteria:

### **Planned and reported indicators are not well defined**

20. For the selected objectives, 30% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

### **Planned and reported targets are not measurable and time bound**

21. For the selected objectives, 30% of the planned and reported targets were not measurable in identifying the required level of performance.

22. For the selected objectives, 30% of the planned and reported targets were not time-bound in specifying the time period or deadline for delivery.

## **Compliance with laws and regulations**

### **Payments to suppliers not in the prospective providers list**

23. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing and prospective providers were not invited to apply for such listing at least once a year as per the requirements of regulations 14(1)(a)(ii) and 14(2) of the Municipal Supply Chain Management Regulations of 30 May 2005. Consequently, goods and services were procured from providers who were not on the prospective providers list.

## **Annual financial statements**

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors were subsequently corrected by the municipality.

## **Audit committee**

25. The audit committee did not substantially fulfil their responsibilities, as required by section 166 of the MFMA.

## **INTERNAL CONTROL**

26. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## **Leadership**

27. The accounting officer did not exercise effective oversight responsibility over reporting and compliance with laws and regulations and internal control as well as in the preparation annual performance plan and financial statements.

## **Financial and performance management**

28. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information to ensure that financial statements submitted for audits are free from material misstatements.

## Governance

29. The audit committee did not promote accountability through evaluating and monitoring responses to risks strategy of the municipality and providing oversight over the effectiveness of the internal control environment and compliance with the relevant laws and regulations.

*Auditor-General*

Pietermaritzburg

30 November 2011



AUDITOR-GENERAL  
SOUTH AFRICA

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